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Spain

Retail Food Sector

Report

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Report Highlights:

About 75 percent of total food products are sold through the retail market. The food distribution sector is in the hands of fewer groups every year. The key to penetrating Spain's retail food market is to establish and maintain relationships with importers/distributors. Competition from other EU suppliers is stiff, but continuous demand for new products offers possibilities for U.S. products.

Includes PSD changes: No
Includes Trade Matrix: No
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I Market Summary

Spain's food distribution sector is similar to those in most developed countries around the world: it has reach maturity and is becoming more concentrated and specialized, with greater market power held by fewer companies. The number of hypermarkets and supermarkets continues increasing while the number of traditional outlets decreases. By 2005, only half of the traditional outlets currently operating will remain in the business; their strength remains in sales of fresh products, where they currently hold about half of the market.

The market share of food sales in hypermarkets continued to decline in 2001, falling to 18.3 percent of total food sales, while that for supermarkets continues to grow, reaching 42.2 percent. Within the supermarkets, those that hold a higher market share are the outlets with an area of between 401 and 1,000 square meters.

As in other EU countries and indeed throughout the world, food marketing in Spain is also increasingly dominated by fewer companies. In 2001, the ten largest companies represented two thirds of sales, while the top 20 hold over three quarters.

The consolidation of retail distribution companies also continues. The merger of Promodes and Carrefour in 2001 continued to unfold in 2002 as the new group sold off some outlets to comply with EU regulations which limit the maximum market share allowed to be held by a single company or group. El Corte Ingles, Auchan and Eroski purchased some of these outlets. Even with these forced sales, the Carrefour group remains the country's largest food retailer, followed by Eroski, Mercadona and El Corte Ingles.

Food producers are concerned about the increasing power that these groups are gaining, complaining that their market position allows them to exact lower prices from farmers and manufacturers. To allow consumers to be aware of the margins, some farmer organizations have called for a labeling system that would show the farm price as well as the retail sale price of any fresh product. The food retailers reply that they face fierce competition, lower prices, and narrower profit margins.

While consumption patterns have changed along with the structure of the retail industry, many consumers still prefer to make frequent purchases at neighborhood supermarkets and traditional fresh product outlets particularly for bread, fruit, seafood or meat products. They generally venture to hypermarkets weekly or monthly to buy non-perishable products. As a result of this purchase pattern, the number of medium-sized supermarkets is growing. Large food distribution groups continue to open more medium size supermarkets. For example, El Corte Ingles continues opening more supermarkets outside its department stores, under the brand name of "Superecor," as well as convenience stores under the name of "Opencor". This group also has an agreement with a major Spanish gasoline retailer, Repsol, to have Opencor outlets in gas stations, which will offer a wider range of products than its competitors in this sector.

The hypermarkets are reacting to their loss of market share by offering more "personalized" products and services, including areas offering gourmet foods, snacks, high quality fruits and vegetables and ready-to-eat products. The hypermarkets are also pushing "home meal replacement" of high value-added products to pump up sales.

Total food production in 2001 was valued at 56.2 billion euros, an increase of two percent by value, but a decrease of almost two percent in volume. Spanish consumers spent 61.4 billion euros on food, representing an increase of 1.9 percent from 2000. The products that experienced the largest increases included meat, seafood, dairy products, fresh fruits and vegetables, and ready-to-eat products.

Total grocery sales in 2001 through food distribution chains or groups reached 44.8 billion euros, an 8 percent increase over the previous year. About 27 percent of total food expenses took place through the HRI sector.

Currently, the typical Spanish consumer can be characterized as more health conscious, demanding more information about products and placing a premium on quality and services.

Types of outlets in Spain

- Hard discounts: These self-service outlets carry a limited range of products compared to supermarkets or hypermarkets, but at lower prices. Products displays are basic compared to other types of outlets. There are about 2,958 hard discount stores in Spain. DIA, owned by Carrefour, is the leader in this market sector.

- Hypermarkets: These are self-service stores with a minimum selling area of 2,500 square meters. They are usually located outside town centers. Like supermarkets, they sell a wide variety of food and non-food items. At the end of 2001 there were 332 hypermarket outlets. This market sector will be constrained in the future by laws approved by the Spanish government which limits the number of new hypermarkets.

- Supermarkets: These are self-service stores with a minimum selling area between 400 and 2,499 square meters. Supermarkets sell a wide variety of foods and non-food items. At the end of 2001 there was total of 13,175 supermarkets. They are usually located in city centers. Supermarkets are sub-divided in three categories depending the total sales area: small (100 to 400 sq. meters), medium (401 to 1,000 sq. meters) and large (1,001 to 2,500 sq. meters). Medium-sized supermarkets seem to be the fastest growing sector in food retailing.

- Convenience Stores: Convenience stores are generally located in the centers of small-to-medium-sized towns. Many are located in small areas in gas stations. Spanish law defines a "convenience store" as the outlet with a maximum area of 500 sq. meters, opened to the public every day during 18 hours, offering a wide variety of products that includes food, books, newspapers, presents and toys. There are about 5,600 of these outlets.

Convenience stores can be divided in two types: those linked to gas stations (where food and beverages account for nearly half of total sales); and those located in urban areas, (where food and beverages make up only about a quarter of the total). The El Corte Ingles group is fueling growth in this sector. Its "Opencor" outlets in urban areas are among the largest convenience stores, stocking up to 6,000 items. In addition, its recent agreement with Grupo Repsol, Spain's largest gasoline distributor, will give El Corte Ingles access to nearly 2,500 gasoline stations.

- Traditional outlets: Traditional outlets include several types of shops, including corner grocery stores, bakeshops, neighborhood butcher shops, fishmongers, open air markets and frozen and gourmet food stores. Although the continuous expansion of mass distribution outlets threatens these traditional outlets, there are about 45,500 stores with a market share of about a third of total retail food sales.

Table I - Number of Retail Outlets

<i>Type of Outlet/Year</i>	1999	2000	2001
Traditional + Self-Service > 100 sq. meters	54,448	48,849	45,569
- Supermarket: 100 to 400 sq. meters	8,252	8,169	8,032
- Supermarket: 400 to 1000 sq. meters	3,332	3,574	3,801
- Supermarkets: 1,000 to 2,500 sq. meter	981	1,137	1,342
Total Supermarkets 100 - 2,500 sq. meters	12,565	12,879	13,175
Hypermarkets	306	318	332
Grand TOTAL	67,319	62,046	59,076

Source: AC Nielsen

**Table II - Percentage of Total Food Sales
by Type of Outlet and Product sold**

Type of outlet	Fresh Products 2001 (2000)	Dry Products 2001 (2000)	Total 2001 (2000)
Hypermarkets	11.4 % (11.5%)	24.8 % (25.9 %)	18.3 % (19 %)
Supermarkets	30.3 % (29.4 %)	53.6 % (51.9 %)	42.2 % (41 %)
Traditional	48.8 % (50.2 %)	14.8 % (15.2 %)	31.3 % (32.2 %)
Other	9.5 % (8.7 %)	6.8 % (6.9 %)	8.1 % (7.8 %)

Source: Spanish Ministry of Agriculture

**Table III - Market Share of Supermarkets/Hypermarkets, by Product
(Percent)**

<i>Product/Outlet</i>	Hypermarkets	Supermarkets 1,001-2,500 sq.m	Supermarkets 401-1,000 sq.m	Supermarkets 100-400 sq.m
Food & Beverages	29.6	20.3	27.9	22.2
- Dry Products	27.6	20.3	28.4	23.7
- Beverages	33.4	20.6	26.3	19.7
- Canned Prod.	29.8	21.1	27.6	21.5
- Milk & shakes	26.9	19.0	30.1	24.0
Fresh Products	25.0	21.7	28.7	24.6
- Dairy Products	22.7	19.3	30.1	28.0
- Frozen Products	27.2	22.6	26.4	23.9
- Meat & Eggs	18.8	21.2	32.2	27.7
- Cheeses	25.3	20.7	28.7	25.3
- Ready-to-eat Products	27.5	25.8	27.9	18.8
- Cured meats	27.8	25.2	28.2	18.9

SWOT for U.S. grocery products

Strengths	Weaknesses
U.S. food products are appreciated for their novelty	The product has to be labeled in Spanish
Many U.S. products have a reputation for quality	Not all the products are in line with the Spanish taste
Attractive packaging	Need large investment to promote new products
Many niche markets for some U.S. products	Lack of knowledge of many U.S. brands
Opportunities	Threats
The American life style is popular among the younger generation.	Stiff competition from similar food products produced in other EU countries.
Many TV shows and films show U.S. food products.	Import duties increase U.S. product final price.
Spanish consumers want to try new and quality products.	Higher prices than EU produced products.

SWOT for U.S. grocery products

	Transportation cost.
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II. Road Map for Market Entry

Entry Strategy

As stated above, the retail market in Spain is very concentrated. It is very difficult for an individual exporter to establish direct relations with the firms that control most of the business as they prefer to deal with their customary importers/distributors. Furthermore, in general, they do not import the products directly, so it is essential that U.S. exporters wishing to crack this market establish relationships with their distributors. The new-to- market exporter should find an importer, agent or wholesaler that will do customs clearances and will advise on compliance with labeling, packaging, and sanitary regulations. Some supermarket chains, however, are directly importing certain products, such as walnuts or pulses, to be repacked in their warehouses.

An important method for finding an importer, agent or distributor for U.S. products is to exhibit at trade shows. Alimentaria, held every other year in early March in Barcelona (and in Portugal in the alternating years), is the leading food show in Iberia and an excellent venue for introducing a new product and for meeting potential clients and establishing relationships. Biocultura is an organic products trade show held every year in Madrid during the first week of November.

Distribution Channels

Most fresh products, especially seafood, fruits and vegetables, are distributed through 22 public wholesale markets located around Spain. In the larger cities, the big grocery retail chains have their own buyers in these markets, who buy and receive fresh product from wholesale companies that is later sent to their supermarkets. Purchases of grocery products are managed directly by each group. Distribution companies or chains request that the products they purchase be delivered to their platforms or warehouses and then are distributed to each outlet.

Table IV - Company Profile - Main Food Distribution Companies - 2000

Name of Outlet	Ownership	Sales in Million Euros	No. of Outlets	Purchasing Type
IFA Española	Spanish	10,124	4,397	Importer/Distributor
Euromadi Iberica	Spanish	9,556	14,635	Importer/Distributor

Table V - Company Profile - Main Grocery Retail Chains - 2001

Retailer Name	Ownership	Sales in M. Euros	Number Outlets	Market Share	Purchasing Agent Type
Grupo Carrefour	French	10,015	1,864	11.8%	Importer/Distributor - Direct
Eroski	Spanish	4,191	1,079	8.3%	Importer/Distributor - Direct
Mercadona	Spanish	4,185	589	8.3%	Importer - Direct
Auchan (Alcampo)	French	3,225	150	6.3%	Importer/Distributor - Direct
El Corte Ingles (Grupo)	Spanish	3,380	138	3.9%	Importer/Distributor - Direct
Ahold	Dutch	1,992	1573	3.5%	Importer/Distributor
Caprabo	Spanish	1,760	486	2.8%	Importer/Distributor - Direct
El Arbol	Dutch	911	724	1.8%	Importer/Distributor
Lidl	German	853	339	1.7%	Importer/Distributor - Direct
Ahorramas	Spanish	677	148	1.3%	Importer/Distributor - Direct
Grupo GADISA	Spanish	660	229	1.3%	Importer/Distributor - Direct

III. Competition

The Spanish food industry is highly developed and competitive. Spain is a major food producer, offering an increasing range of processed products. Large distribution chains and supermarkets have their own private label brands and offer good quality products at lower prices than traditional brands. In addition to the domestic sector, neighboring EU countries, the source of most food imports, offer a generous supply of competitive products. In addition to these price and logistical advantages, food distributors generally source their products from Spanish producers or from other EU markets, because they are also familiar with EU regulations.

U.S. exports of consumer-oriented products to Spain totaled \$134 million in 2001; tree nuts accounted for over four fifths of this total. U.S. exports of seafood products reached \$70 million, an increase of ten percent in comparison with the previous year; a minor increase is expected for 2002.

- Private Label

Sales of products under a retail distributor's label have had robust growth recently. In 2001, they accounted for sales of 5.31 billion euros, an increase of 14 percent from the previous year. Private labels will likely continue to grow as distributors try to capture higher sales margins in a tough competitive environment.

The focus of private label marketing has also been evolving. When first introduced, private label products were designed to be highly price competitive with established brands. As they gained consumer acceptance, however, retailers began to upgrade quality and packaging. This concept has now evolved the so-called "fourth generation" of private label "premium quality" products which can compete with market leading brands.

Distribution chains very often work with small companies that can provide a good product at a competitive price. Or even work with producers of high quality products. Taking into account that this is an area in the Spanish food distribution sector that is enjoying a high growth, this could be a good opportunity for U.S. exporters of grocery products. First it is difficult to introduce a brand that is not known in this market, a small to medium size company will need a considerable budget to promote it. On the other hand, exporting in bulk, no marketing of the brand is involved because being the own distribution, consumers trust that chain and will be looking for those products that already knows and have a good quality at lower prices.

Private labels still have room for growth in Spain, given that their market share is still below that of private labels in other European countries. For example, Grupo Carrefour's private label products represent only 19 percent of its total sales; those of EROSKI, 22 percent; Caprabo, 10 percent; and 40 percent for Mercadona. Private labels have a larger share in the discount distributors, reaching 60 percent at DIA and even higher at Lidl and Tengelmann.

Products with higher sales under private labels include dairy products, vegetable oil, canned seafood, canned vegetables, bread and pastry, breakfast cereal, nuggat, fresh products, snacks and nuts.

Sales of "Private Label" products by type of outlet

Type of Outlet	Percentage
Supermarket: 100 to 400 sq. meters	30
Supermarket: 401 to 1000 sq. meters	28.9
Supermarket: 1,000 to 2,500 sq. meter	24.6
Hypermarket	14
TOTAL	23.9

IV Best Products Prospects

A. Products present in the market which have good sales potential are as follows:

Seafood in general, and lobster, whiting, squid, salmon, in particular	
Treenuts: almonds and walnuts	Pet foods
Tex-Mex products	Bourbon
Ready-to-eat products	Cake mixes & pancake flour

B. Products not present in significant quantities but which have good sales potential are as follows:

Quality fresh fruit: pink grapefruit, apples	Surimi
Processed fruit & vegetables and juices	Beer
Snacks	

C. Products not present because they face significant barriers:

All poultry and red meat products.

V. Post Contact and Further Information

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For further information, check the "Agricultural Affairs" home page on the U.S. Embassy Madrid web site: <http://www.embusa.es> or <http://www.fas.usda.gov> then look under countries - Spain

NOTE: Average exchange rate: 1999: 156.33pts./\$1; 2000: 180.68pts/\$; 2001 \$1/0.896 Euros.
Current exchange rate: \$1/0.99 Euros.